State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott McCallum, *Governor*
Connie L. O'Connell, *Commissioner*

Wisconsin.gov

Local Government Property Insurance Fund
121 East Wilson Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 264-6226 • Fax: (608) 266-9935
E-Mail: dan.bubolz@oci.state.wi.us
http://badger.state.wi.us/agencies/oci/oci_home.htm

LOCAL GOVERNMENT PROPERTY INSURANCE FUND
OVERSIGHT COMMITTEE MEETING
March 8, 2001

The Oversight Committee meeting was called to order by Dan Bubolz at 1:10 PM, in Conference Room 6, 121 E. Wilson St. Madison, Wisconsin. Participants included Peter Medley, Phil Kress, Jane Kovacik, Dave Marchant, Jim Trader and guest Lynn Davis representing CESA #6. Eileen Mallow joined the committee meeting in progress for the discussion on the proposed rate report.

Dave Marchant overviewed the financial material contained in the agenda packet highlighting activity in premium, losses, expenses, insurance in force, surplus and reinsurance recoverable and recoveries. Of particular note is that direct losses continue to be consistently high as in past fiscal years with the annulized incurred losses projected to be slightly in excess of $14 million based on the first six months experience. Fund policyholder count is relatively stable with the minimum decrease accounting for a dip in the number of townships being insured. Dave walked the committee through the income statement noting how the change in reinsurance retention will play a significant part in the Fund's need to price its coverage to cover direct losses. The effect of the change to require the Fund to retain the first $2,500 of every loss before counting the excess toward the annual aggregate retention meant the Fund retained about $600,000 more than it would have for the first six months of fiscal year 2001 (June through December.) Dave reported he and Dan are monitoring the liquidity needs of the Fund and make no recommendations for any transfers to the long term investment fund at this time. Peter Medley commented that based on insurance inforce to premiums ratio the Fund has been offering more coverage for the same amount of premium dollars. Discussion also noted that the Fund's direct loss ratio has been running well in excess of 100% for many years. Commentary on that matter was deferred until the discussion on the proposed rates and changes that were contained in the agenda under the proposed report on rates for July 1, 2001.

Prior to reviewing the rate report the Committee spent time reviewing an attachment entitled AON Property Insurance Market Overview 2001. This report notes that as a result of what began in 2000 as an overall market increase of 15% - 20% for best of class, 20%-25% for standard and 25%-35% for substandard classes, in fact ended the year in some cases with considerably larger rate increases as insurers seized the opportunity by the shifting market. It also notes that when 1999 underwriting results are tallied, the impact of more that 13 continuous years of ever-deteriorating underwriting results of Property insurers finally reached a breaking point. The importance of this is that the Fund is not alone in experiencing adverse property losses.

Dan advised that the Administrative Services RFP was posted on VenderNet on March 2, 2001. The due date for receiving vendor responses is April 20, 2001.

The Committee reviewed the proposed rate report and agreed with need for the proposed recommendations subject to the following comments. The Committee did agree that the minimum deductible level should be raised from $100 to $500. But instead of “mandating” the use of even higher deductible levels for larger Fund policyholders the Fund should rather “encourage” the use of higher deductible retentions through premium credit incentives and revisit this issue next year to see if these incentives worked. The committee also concurred with the recommendation that the Fund consider changing its method of assessing surplus adequacy, but it felt that focusing on a method that compareds surplus to in force levels is just one method and there could be others to consider.

The Committee discussed the impact of the rate increase noting that a 24% increase would not in itself trigger the need for a statutory notification to Fund policyholders. There was also discussion on whether the other changes to deductible and minimum premium levels, etc., might trigger the need for this notice. The Committee agreed that regardless of whether or not a statutory notice is required the Fund should still issue such a notice to all its policyholders. That notice should be issued at least 60 days prior to a policyholder’s renewal. Dave and Jim are to review Fund underwriting records and prepare a systematic approach for notifying all Fund participants of the changes being made and how these could affect that entity’s premium. The Fund should also consider sending out a general notice to policyholders notifying them of these upcoming changes.

There being no other business the meeting was adjourned.